

The Big Tax Increase Nobody Noticed

By Dean Baker*

In January of 2013 nearly every worker in the country saw their payroll tax increase by 2.0 percentage points.¹ The payroll tax holiday that had been put in place at the start of 2011 ended in December of 2012, leading to a jump in the Social Security tax from 10.4 percent to 12.4 percent of earnings up to the taxable limit.²

This was an extraordinarily large increase in the payroll tax. Past increases had generally been phased in gradually. For example, from 1980 to 1990 the tax rate was increased by a total of 2.24 percentage points; however in no year did the rate rise by more than 0.72 percentage points, just over one-third of the 2013 increase.³ If the public was strongly opposed to any tax increases, it would be expected that one as large as the 2013 rise in the Social Security tax would lead to considerable anger, especially given the weakness of the labor market which was still very much feeling the impact of the 2008-2009 recession at that point.

This is why it was striking to find that most people responding to a 2013 Google Consumer Survey apparently did not even know that their payroll taxes had been increased at the start of the year. The poll asked respondents whether at the beginning of the year their Social Security taxes were raised, lowered, left the same, or don't know. (See the appendix for a full description of the methodology.) A majority of respondents answered that they didn't know what had happened to their payroll taxes at the start of the year. Only 28.9 percent correctly answered that their taxes had gone up.

On its face this seems to suggest that a relatively small share of the public (less than one-third) was aware of the tax increase that was put in place at the start of 2013. However it is likely that even the 28.9 percent figure likely overstates the share of the public that actually recognized this tax increase. Just as some number (7.9 percent) wrongly thought their taxes had fallen at the start of 2013, it is likely that some people would answer that their taxes had been raised simply because they generally believe the government is raising their taxes.

To get a sense of what percentage of the public would believe that their taxes had been increased even when this was not the case, we asked the identical question in 2014. This year provides a useful comparison since we still have the same president in the White House and divided control over the houses of Congress. In response to this question in 2014, 19.8 percent of the people surveyed



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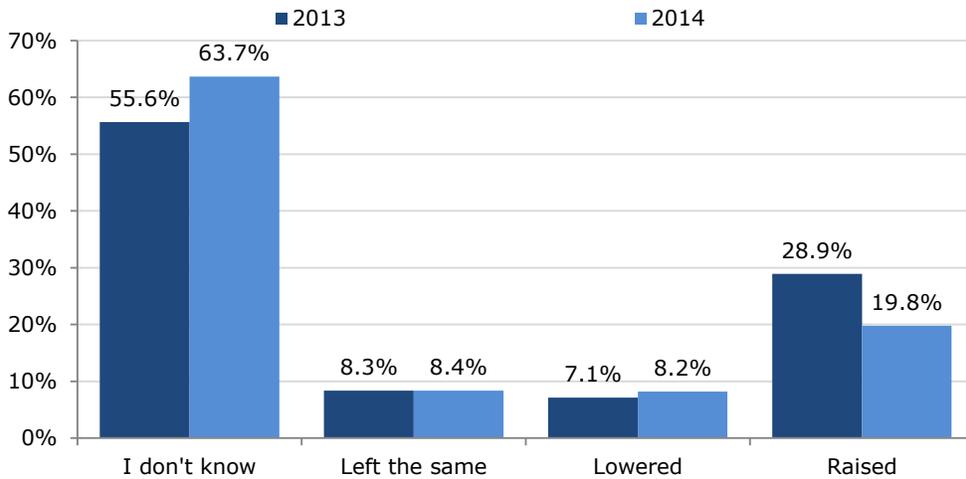
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answered that their Social Security taxes had been increased at the beginning of 2014. Figure 1 shows the distribution of answers to the question in each year.

FIGURE 1

**Answer to Question About the Change in the Social Security Payroll Tax at Start of Year
2013 and 2014 Survey Results**

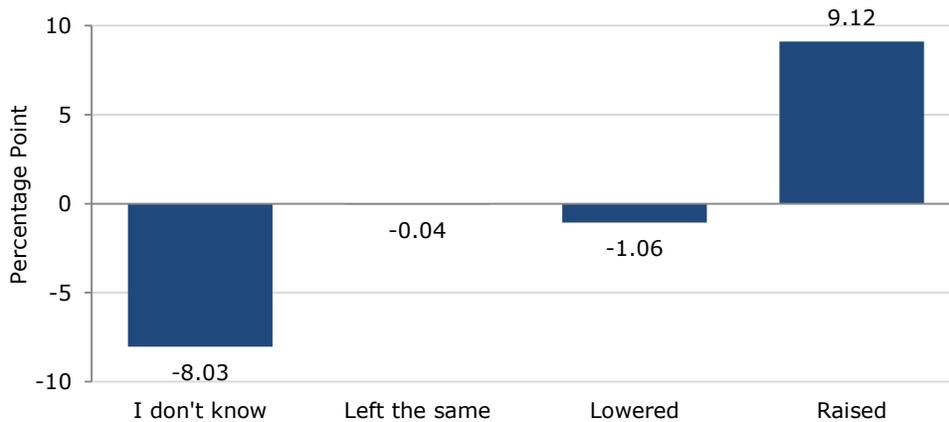


Source: Google Poll, see appendix.

If the percentage of people who answered that their taxes had been increased in 2014 gives us an estimate of the number of people who believe that their taxes would rise simply because of the specific political configuration in place at the start of 2013, then we can infer that the share of the public who actually recognized the tax increase would be the difference between the number who said their taxes had increased in 2013 compared with the number who said their taxes had increased the following year. Figure 2 shows the differences in the answers to the question in these two years.

FIGURE 2

**Difference in Response to Question About the Change in the Social Security Payroll Tax
at Start of Year
Change in Survey Results, 2013-2014**



Source: Google Poll, see appendix.

The difference between the portion of respondents answering that their taxes had increased in 2013 compared with the portion in 2014 was 9.1 percentage points. In other words, this means that just 9.1 percent of the people surveyed were able to recognize an unusually large increase in the Social Security tax.

This has interesting policy implications. As is well known, Social Security is projected to face a funding shortfall in the decades ahead. This gap will have to be filled with some mix of revenue increases and/or benefit cuts. While several prominent political figures have proposed increases in taxes on higher income earners, few have been willing to propose increases in the payroll tax, even if they are phased in over a substantial period of time to minimize their impact on living standards. For example, if a 2.0 percentage point increase in the payroll tax is phased in over twenty years, taxes could be raised at the rate of 0.1 percentage point annually (0.05 percentage points on each the employer and employee).

These poll results suggest that the public may not be especially adverse to modest increases in the payroll tax, since they may not even notice them. This supports the findings of other polls that indicate most Americans favor strengthening Social Security through revenue increases such as raising the program's tax rate.⁴ This would be especially likely if the tax increases occurred in the context of rising real wages. (The Social Security Trustees project that real average hourly compensation will rise by more than 60 percent over the next three decades.)⁵ If most workers see their wages rise in step with average compensation over the next three decades, then even an increase of 2-3 percentage points in the payroll tax would not prevent them from enjoying far higher standards of living at the end of this period than they do today.

Of course the payroll tax rise in 2013 occurred in an environment in which no major political figures were arguing against it. There had been a bi-partisan budget agreement between President Obama and the Republican congressional leadership, so both parties had accepted this tax increase. The public response likely would have been different if the leadership of one of the major parties had been openly arguing against the tax increase.

However these poll results suggest that the issue is then the actions of political leaders, and how the media choose to report them, rather than the inherent opposition of the public to higher taxes. The public cannot be too upset by tax increases if they don't even notice when they take place.

1 The main exception is the roughly 30 percent of state and local government employees who are not covered by Social Security. Almost 95 percent of the workforce would have seen this tax increase on January 1, 2013.

2 The cap on taxable income was \$113,700 in 2013.

3 The history of payroll tax increases can be found in the Social Security Trustees Report, Table V.C6 [http://www.ssa.gov/OACT/tr/2014/V_C_prog.html#284997].

4 A poll by the National Academy for Social Insurance found that 53 percent of Americans favor a gradual increase in the Social Security Payroll tax. http://www.nasi.org/sites/default/files/research/What_Do_Americans_Want.pdf

5 Social Security Trustees Report, Table V.B1 http://www.ssa.gov/OACT/tr/2014/V_B_econ.html#292722

Methodology

The 2013 Google Consumer Survey Poll was an online survey of 1,534 adults ages 18 and older conducted October 11-17, 2013. Respondents were randomly asked to answer the survey question as they sought out online content, such as news, entertainment and reference sites on Google.com.⁶ The respondents were asked the question: “At the beginning of 2013, the payroll tax that funds Social Security was:

- Raised
- Left the same as in 2012
- Lowered
- I don’t know”

With the exception of ‘I don’t know’ which remained fixed in the last position, the answer choices were presented in random order for each respondent.

The 2014 Google Consumer Survey Poll was an online survey of 1,506 adults ages 18 and older conducted July 26, 2014 – August 1, 2014. Respondents were randomly asked to answer the survey question as they sought out online content, such as news, entertainment and reference sites on Google.com.⁷ The respondents were asked the question: “At the beginning of 2014, the payroll tax that funds Social Security was:

- Raised
- Left the same
- Lowered
- I don’t know”

With the exception of ‘I don’t know’ which remained fixed in the last position, the answer choices were presented in random order for each respondent.

⁶ For more on Google’s methodology, see http://services.google.com/fh/files/misc/gcs_overview.pdf

⁷ Ibid.